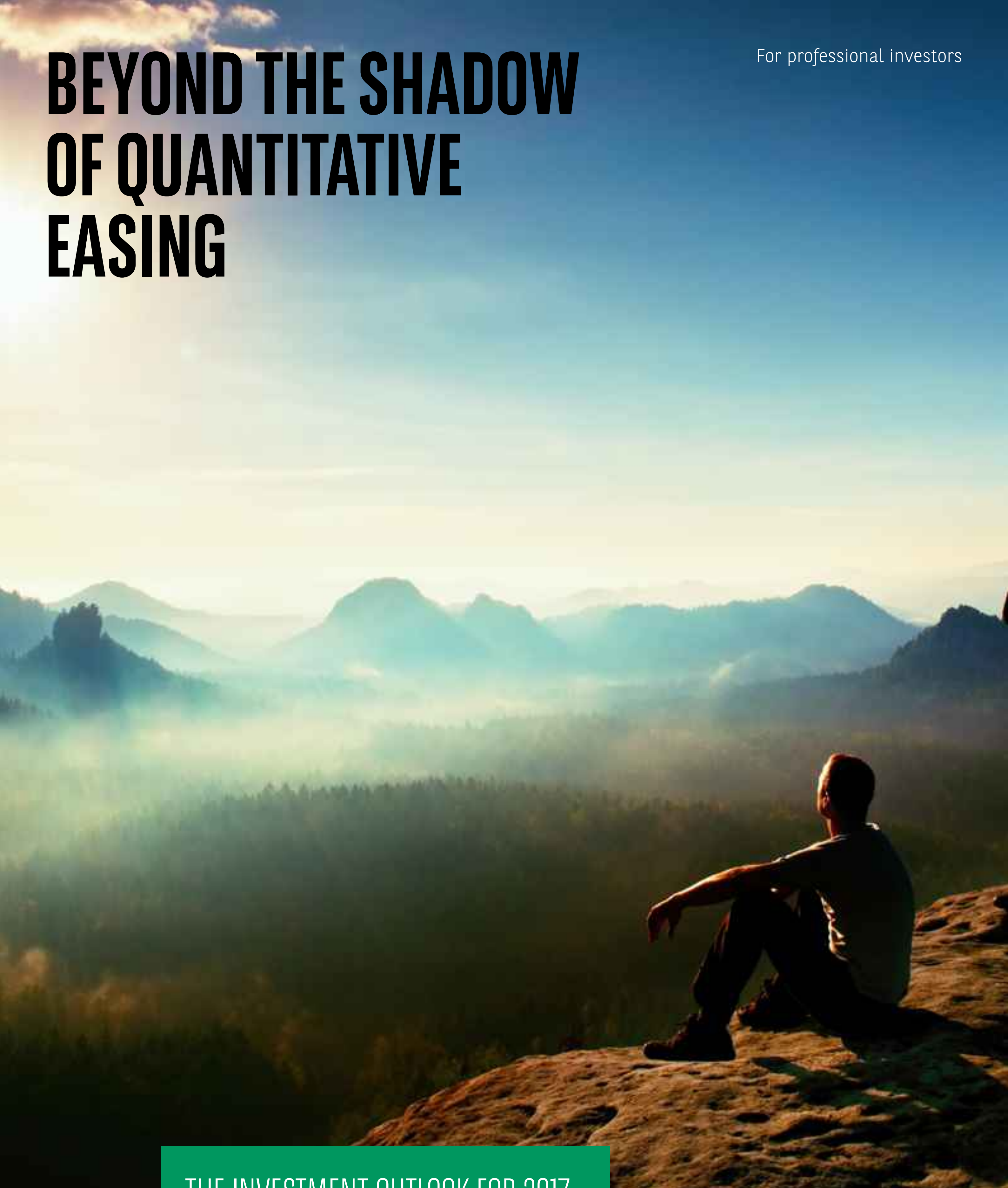
For professional investors

BEYOND THE SHADOW OF QUANTITATIVE EASING



THE INVESTMENT OUTLOOK FOR 2017

BNP PARIBAS
INVESTMENT PARTNERS

The asset manager for a changing world

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Note to readers: all assessments, data and forecasts in this document are made using data and information up to and including 14 November 2016, unless stated otherwise

Letter to investors

Who, in 2009, would have given credence to an investment outlook forecasting that US interest rates would stay near zero for six years, that key interest rates in Europe and Japan would turn negative and that central banks of the G-7 group of major industrialised nations would collectively expand their balance sheets by more than USD 5 trillion in a bid to boost growth and fan inflation?

If investors had taken such predictions seriously, they would surely have anticipated that high rates of inflation would result – and would be shocked to find that core consumer price inflation has actually been consistently weak in the main high-income economies. At the same time, growth has generally been modest, leaving investors with the challenge of finding investments generating attractive yields in a low-growth, low-inflation world.

It has now become clear that central bank efforts to brighten economic prospects through quantitative easing are generating diminishing returns and giving rise to undesirable side-effects for important areas of the economy, including distortions in capital markets and pressure on profitability in the financial sector. The ever longer shadow cast by quantitative easing is seemingly being acknowledged by a number of central bankers.

At the time of writing, the US Federal Reserve is gearing up for a normalisation of interest rates after having called time on quantitative easing. A number of those central banks that remain in easing mode are now focusing on different forms of unconventional monetary policy. Leaving the shadow of quantitative easing behind will likely be a gradual process, but it reflects the promise of a sustained upturn in growth, brightened possibly by the prospect of additional fiscal expansion. Here too, it now looks likely that the US will be in the lead, with the new administration looking set to launch a major fiscal stimulus and a focus on measures to boost supply such as deregulation.

Investors should prepare for a phase of transition as we move beyond the peak in quantitative easing and as financial markets and economies seek to find their feet without the unprecedented central bank policies by their side. At the same time, many of the certainties that had instilled a sense of stability and bolstered predictability since the financial crisis are being shaken up, fanning market concerns over issues ranging from the global economic and inflation outlook to the prospects for deregulation and globalisation as well as geopolitics.

Making the right investment choices in such tumultuous times when many traditional orientation points have become invalid is undoubtedly challenging and requires us to have a clear focus on the ways for investors to invest or remain invested, preserve capital and the yields they earn, or earn a higher yield.

Our views in this Investment Outlook are presented in two sections. Firstly, we assess the global macroeconomic environment and the prospects for the principal asset classes. The articles that follow focus on those strategies that we see offering investors solutions in 2017, namely: factor investing, alternative debt and responsible investing focused on environmental, social and governance criteria.

> “Investors must now prepare for a phase of transition as we move beyond the peak in quantitative easing

Frédéric Janbon
Chief Executive Officer and Head of Investments
BNP Paribas Investment Partners
frederic.janbon@bnpparibas.com

BEYOND THE SHADOW OF QUANTITATIVE EASING

The key convictions and conclusions in the macroeconomic and investment outlook by Joost van Leenders and Daniel Morris (pages 6–15) are:

- The structural factors — weak global trade, low productivity and excessive debt burdens — that we have explored in this publication in recent years are likely to continue to inhibit the pace of global economic growth in 2017. As a result, we do not expect the global economy to expand much faster than the distinctly pedestrian rate of 2016.

- Negotiating the side-effects of slow growth on the social contract is now a significant issue in many advanced democracies, given the rise in populism, the challenges to globalisation and the growing disquiet over inequality. Geopolitical threats and the possibility of increased protectionism reflect the rising uncertainty. In addition to those developments, the election of Donald Trump as US president has the potential to bring major changes in the direction of US interest rates, inflation, equity markets and growth that look likely to reverberate around the world and shift the focus of financial markets dramatically away from central bank policy and more towards economic and corporate fundamentals.

- Increasingly, unconventional monetary policy measures such as quantitative easing, having served their initial purpose, are becoming burdensome to the financial system. In 2017 we expect major central banks to continue to prepare markets for the eventual end of their unconventional approach to tackling the post-crisis challenges of slow growth and low or non-existent inflation. Fiscal policy would seem to be next up in countering structural weaknesses, first and foremost in the US where the new administration is considering a broad and extensive stimulus package. Fiscal largesse could pave the way for faster growth and higher inflation, although there is much uncertainty among investors about the durability of such a boost.

- Our central scenario is based on a continuation of the global low-growth, low-inflation environment of recent years. We do not expect the deflationary force that China exerts in the global economy — an important element of the low-inflation paradigm — to change dramatically in 2017. But the long downward march in core bond yields looks likely to be ending as the yields of developed market government bonds rise from the exceptionally low levels seen in 2016. In this constellation, the search for alternative sources of investment yield continues.

- As bond yields and inflation nudge higher in 2017, equities should outperform fixed income. Inflation-linked bonds should outperform sovereign bonds, although more so in the US and the UK than in the eurozone. Investment-grade and high-yield credit looks attractive, particularly in Europe. Emerging market equities offer investors opportunities as more countries pursue reforms and corporate margins recover. The outlook for emerging market debt is likely to get worse before it gets better.

In this year's Investment Outlook we highlight the following investment capabilities:

Multi-factor investing — 16
Raul Leote de Carvalho explains the contribution of factor investing to boosting returns from equity and credit markets.

Alternative debt strategies — 19
Stéphane Blanchoz outlines the advantages of allocations to private debt investments and other direct lending strategies, a growing segment offering investors attractive yields and diversification potential.

Environmental, social and governance (ESG) — 21
Jacky Prudhomme relates how the incorporation of environmental, social and governance (ESG) criteria into the investment process augments the analysis of a company's strengths and weaknesses.

MONETARY POLICY REACHES ITS LIMITS AS WEAK GROWTH PREVAILS

“ Investors must now prepare for a phase of transition as we move beyond the peak in quantitative easing

“ 'Helicopter money' is not something we foresee, while we expect fiscal policy to be only marginally stimulative

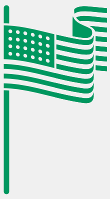
“ A gradual rise in inflation could allow the ECB to start tapering its asset purchases

ASSET CLASSES: A NEW LANDSCAPE

“ Monetary policy is likely to have a neutral to negative impact on global government bond prices

“ For core eurozone government bonds, we expect the balance to tip towards higher rates

“ The election of Donald Trump dramatically changes the investment outlook, with risks as large as the opportunities



“ US corporate margins have been declining, while European margins are expected to improve

“ A rising dollar is a worry for emerging market debt

FACTOR INVESTING: BOOSTING RETURNS FROM EQUITY AND CREDIT MARKETS

“ Given that interest rates remain extremely low, investors seeking higher returns may want to switch into long-short multi-factor strategies with moderate volatility

ALTERNATIVE DEBT - SME DEBT DISINTERMEDIATION TO PROGRESS IN 2017

“ Direct lending strategies can be attractive for investors as the segment grows, driven by bank disintermediation, regulatory support as well as an intensifying search for yield and diversification

ESG INVESTING: MAKING PORTFOLIOS FUTURE-PROOF

“ Increasingly, an ESG approach is becoming a must-have for investors and for companies

Joost van Leenders, CFA
Chief economist with the
Multi Asset Solutions team
London/Amsterdam
joost.vanleenders@bnpparibas.com

MONETARY POLICY REACHES ITS LIMITS AS WEAK GROWTH PREVAILS

In a pattern that has become all too familiar since the Global Financial Crisis, global growth disappointed in 2016. This is underscored in the IMF's World Economic Outlook, which in January 2016 estimated global GDP growth for 2016 at 3.4%, only to scale it back to 3.1% in October. Downward revisions to US growth had the biggest impact: the Bloomberg consensus called for 2.5% in December 2015 before falling to 1.5% in October 2016. Growth estimates for the eurozone were relatively stable as they were adjusted from 1.7% to 1.5%, while growth estimates for Japan were cut by half to 0.5%. Chinese growth estimates were virtually unchanged at 6.6% in October 2016.

> The structural factors behind modest global growth remain firmly in place; in addition, political uncertainty and protectionism have come to the fore

A common global theme weighing on economic growth is the dearth of business investment. Business investment growth is still at low levels relative to GDP, especially in the eurozone, but globally growth in business investment has also been lacklustre. We think this has had a negative impact on global trade and on emerging economies. In China, the world's largest emerging economy, economic growth appears stable, but significant monetary and fiscal stimulus was required in 2016 to stabilise an economy faced with a heavy debt load and bubbles in certain sectors. Stability in China and a recovery in commodity prices supported growth in emerging markets, which was a rare upside surprise.

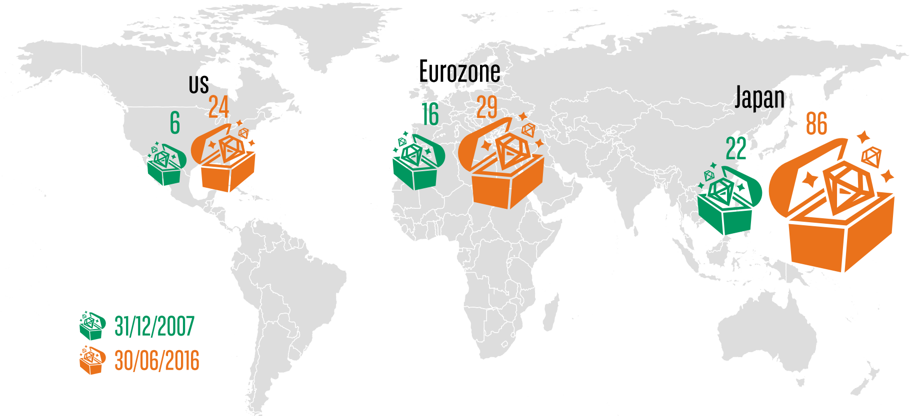
Levels of inflation remain low around the world, well below the targets set by central banks. At the time of writing, the US Federal Reserve has not followed up on its December 2015 rate rise. The Bank of England joined the ECB and the Bank of Japan in full stimulus mode after the Brexit vote, while the People's Bank of China paused on stimulus in the second half of the year. Overall, we think the growth outlook for 2017 will not be much different from 2016. The structural factors behind modest global growth — high debt loads, low investment and low productivity — which we discussed in last year's outlook, remain firmly in place. Political uncertainty and protectionism have now come to the fore (see page 10 for an overview of the major political events in Europe in 2017).

Below we present an overview of issues to watch in the coming year.

IS MONETARY POLICY REACHING ITS ZENITH?

Scepticism about the efficacy of monetary policy has increased in recent years. While the interest-rate cuts and quantitative easing measures implemented during the Great Recession in 2008/09 generally succeeded in preventing a depression, the success of each subsequent round of easing has become more questionable. Negative interest rates have been frowned upon for the damage they do to bank profitability and household savings. So yes, it looks like central bankers generally are pivoting away from generous quantitative easing (see Exhibit 1). While the Bank of Japan has the firepower to target 0% as the desired yield for 10-year bonds for a long period, the ECB is likely to run out of (corporate) bonds to buy under its quantitative easing programme before too long, possibly requiring it to take fresh measures or accept a (slight) rise in yields.

Exhibit 1: Central banks have done their best
(Central bank balance sheets, % of GDP)



Source: Bloomberg, BNP Paribas Investment Partners

In a further attempt to boost policy success, some central banks have signalled that they are willing to let inflation overshoot their target. This may have an impact in the longer term, but for now we think it is more important to look at central bank action rather than listening to their words. The ultimate unconventional step would be for central banks to provide 'helicopter money', where they inject cash into the private sector directly, bypassing the commercial banks. This is not something we foresee in 2017 as there does not seem to be a consensus within central banks in favour of such a radical move. In many emerging markets, there is however scope for the traditional rate cuts.

WILL FISCAL POLICY SAVE THE WORLD?

As an alternative to monetary policy, fiscal policy could kick-start growth in a world economy marked by lacklustre private sector demand. Moreover, with low or even negative bond yields, the hurdle rate for investment in infrastructure looks to be extremely low. Countries such as South Korea, Germany and the Netherlands have the fiscal room to stimulate their economies, while in the US and China, the political will for pro-growth fiscal expansion is more manifest. Japan only has this capacity because of the Bank of Japan's massive government bond purchases. We expect fiscal policy to be only marginally stimulative on a global scale in 2017, with fiscal expansion actually pursued mainly in Japan and China and looking likely in the US. Eurozone countries which have the financial scope to stimulate growth generally do not need to do so from a cyclical perspective. Politically, the room to manoeuvre in the eurozone could be limited since most countries are still struggling to meet the bloc's deficit targets.

WHERE DOES THE US ECONOMY GO FROM HERE?

Accelerated US economic growth would see lower rates of unemployment leading to stronger wage gains, in turn triggering stronger demand, higher productivity growth and stronger business investment. However, the economic cycle in the US is now well advanced and higher wage costs would weigh on corporate profitability. Furthermore, since corporate sector leverage has continued to rise, many companies are vulnerable to higher interest rates. Fiscal stimulus policy through tax cuts and increased spending on, for example, infrastructure or defence may support growth, but the impact may take some time to be felt. Moreover, implementation is uncertain at the time of writing and may be hampered by reluctance in Congress to allow the government deficit to rise. Thus, in our view, such triggers for a pronounced acceleration in the growth rate face hurdles. In the absence of a sudden slowdown, as happened in 2016, GDP growth should amount to 2.25% in 2017. That is stronger than in 2016, but still within the sluggish range of recent years.

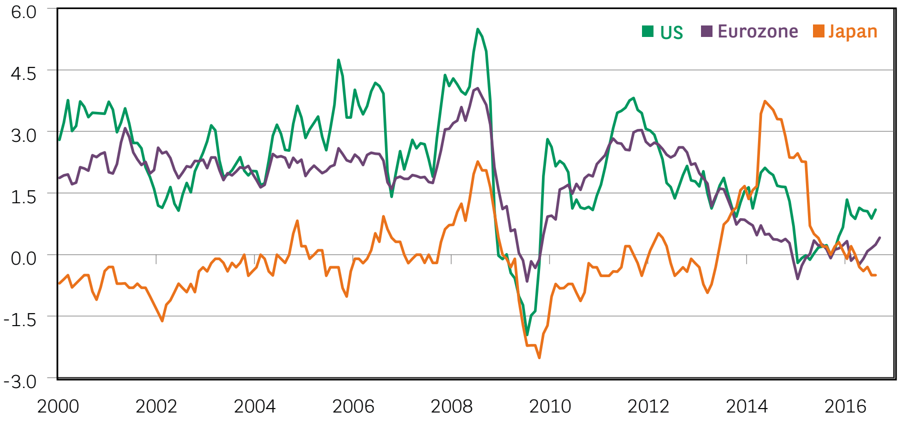
'Helicopter money' is not something we foresee, while we expect fiscal policy to be only marginally stimulative

> A gradual rise in inflation could allow the ECB to start tapering its asset purchases

WILL INFLATION FORCE THE FED'S HAND?

Despite some improvement in the global economy and tighter labour markets in the US and Japan, global inflation has stayed subdued (see Exhibit 2). Our GDP-weighted average was at 1.7% for the six months to August 2016. Headline inflation has started to rise in developed economies as the impact of falling oil prices wanes. Core inflation in the eurozone and Japan is still too low for comfort, but in the US, the core consumer price index (CPI) and labour costs have started to rise. A low neutral rate should enable the US Federal Reserve to move cautiously on policy normalisation, unless inflation picks up speed. A rate rise in December 2016 followed by only two increases in 2017 is our base scenario. We expect US inflation to peak in early 2017 and moderate thereafter. The Fed should tolerate a temporary overshoot in US inflation, in our view. However, we see higher inflation through reflationary fiscal policy and the lingering effects of accommodative monetary policy, and consequently more aggressive rate rises by the Fed, as a main risk for asset prices in general.

Exhibit 2: Inflation remains subdued
(Consumer price indices, % change YoY)



Source: Datastream, BNP Paribas Investment Partners

WILL INVESTMENT PICK UP IN THE EUROZONE?

Since 2015, growth in the eurozone has become more domestically driven, propelled in particular by private consumption. Employment growth has slowly but gradually reduced the unemployment rate and has supported household income and consumer confidence. For the recovery to be sustained, investment, which is still low relative to GDP, would need to kick in. The incentives are in place: low interest rates, improvements in the credit cycle and higher capacity utilisation rates. Politically, Brexit-related uncertainty could hold back business investment in the eurozone, but we do not expect a sharp slowdown. In our view, the eurozone can grow by 1.5% in 2017, the same pace as in 2016. Fallout from the Brexit vote should not lead to a recession in the UK, but a sharp drop in business investment, filtering through to the rest of the economy, could slow growth significantly. Political support for a boost in government-driven investment appears to be limited at this point.

WHEN WILL THE ECB START TAPERING?

Even at today's EUR 80 billion a month pace, the ECB's asset purchase programme, as it currently stands, looks set to hit the buffers in terms of the availability of assets to buy — primarily German government bonds — before the programme is due to end in March 2017. With inflation and inflation expectations still not on a sustained path to the ECB's 2% target, the programme might well be extended for another six months. As growth starts to exceed the trend rate slightly and slack gradually begins to diminish, we expect inflation to gradually rise in 2017, which could allow the ECB to start tapering its asset purchases from September, thus addressing the issue of asset scarcity and the controversy over the programme in some eurozone member states. Monetary policy will likely remain accommodative though: key interest rates will stay negative and any tapering should only be gradual.

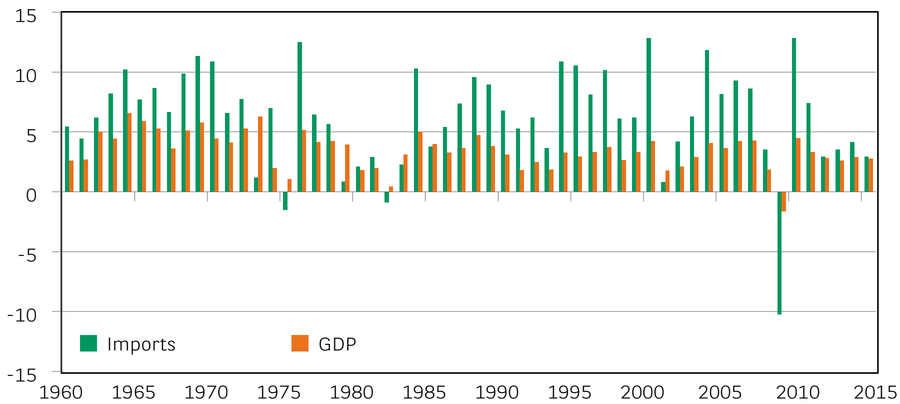
CAN CHINA REBALANCE ITS ECONOMY?

While Chinese growth stabilised in 2016, imbalances such as overly fast credit growth and an overly heavy reliance on fixed investment were not addressed. From 2008 to the first quarter of 2016, the ratio of private sector debt to GDP nearly doubled, to 210%. In the course of 2016, credit continued to expand more rapidly than nominal GDP, raising the debt ratio further. And new bubbles have appeared in housing markets in the biggest cities. So, a hard landing is still a looming risk for the Chinese economy. In our central scenario, credit excesses are gradually reined in, overcapacity in sectors dominated by state-owned enterprises is addressed and the rebalancing from investment to consumption picks up pace. This would however come at the expense of an annual growth rate below 6% — more sustainable — but maintaining China's role as a deflationary force in the global economy.

WILL GLOBAL TRADE REVIVE?

A distinctive feature of the global economy in recent years is the slowdown in global trade growth (see Exhibit 3). The IMF sees overall weakness in economic activity, in particular in investment, as the prime cause. Other causes, according to the IMF, are the waning pace of trade liberalisation, growing political risk and a slower pace — and occasional reversal of — globalisation. We would add to that list the reduced availability of trade credit due to financial regulation and a reduction in China's competitiveness due to rising wages. Unfortunately, we do not see these restraining factors changing quickly.

Exhibit 3: Global trade has slowed
(Global GDP & real imports, % change YoY)

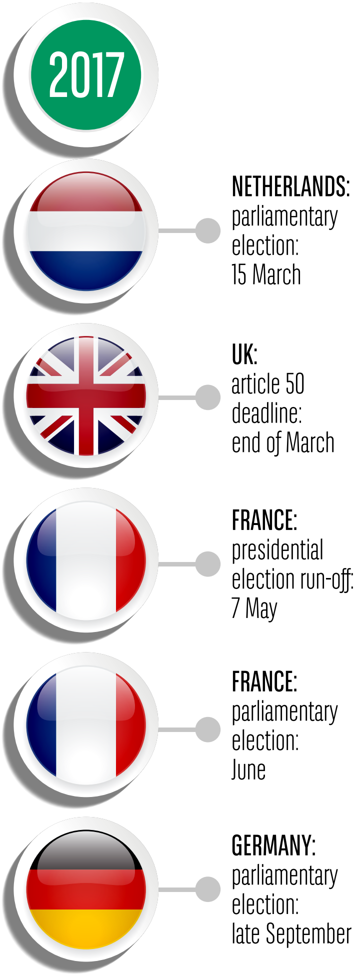


Source: Datastream, BNP Paribas Investment Partners

Currently, due to the rise of populism in several developed economies, the risk of protectionism is higher than it has been for many years. Accordingly, we do not see trade growth returning to the heady rates before the Great Recession. This does not bode well for the export-led growth model in many emerging markets. Growth may accelerate in some Asian economies and may turn positive in Brazil and Russia, but slow trade growth, the need for budget austerity in some countries and financial risk from rapid increases in leverage are obstacles we see on the way to stronger growth.

> We do not see the factors restraining global growth changing quickly

EUROPE - MAJOR POLITICAL EVENTS IN 2017



After a turbulent 2016, 2017 looks likely to be another year of pronounced political uncertainty, particularly in Europe. Among the major countries, elections are due to be held on 15 March in **the Netherlands**, where the coalition of the liberal VVD and the social democratic PvdA faces challenges from the rightwing PVV in particular. Prime Minister Mark Rutte's government has a slight majority, with just 76 out of 150 seats held by VVD and PvdA.

In **France**, the decisive second round of the presidential election takes place on 7 May. National Front's Marine Le Pen has promised to deliver a referendum on EU membership should she win the presidency. In June legislative elections will be held to choose the 577 members of the National Assembly.

Federal elections will take place in **Germany** in the autumn, possibly late September, for members of the 631-seat Bundestag. The right-wing populist party Alternative für Deutschland (AfD) has made electoral gains in local and regional elections, drawing support from both former CDU and SPD voters.

The increasingly populist-driven fragmentation of the political spectrum could impede the formation of stable majority governments in these countries and add to policy uncertainty.

A further challenge to wider European Union stability is likely to be the EU-UK negotiations on **Brexit**. The process comes amid rising political pressure to enhance the union and its institutions on the one hand, and popular misgivings over the need for further integration on the other.

Source: Reinhold Knaus, senior economist with the Multi Asset Solutions team, Amsterdam, CIA The World Factbook cia.gov/library/publications/the-world-factbook; October 2016

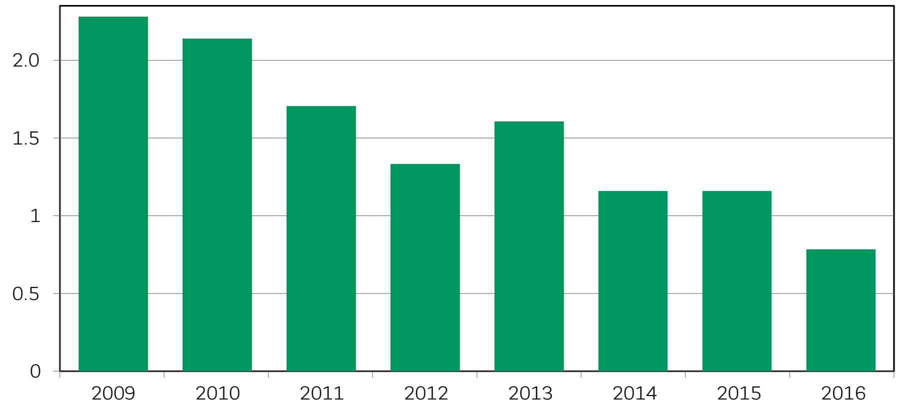
For more on our investment solutions and insights from BNP Paribas Investment Partners, go to bnpparibas-ip.com or visit our blog at investors-corner.bnpparibas-ip.com

ASSET CLASSES: A NEW LANDSCAPE

Daniel Morris, CFA
Senior investment strategist
London
daniel.m.morris@bnpparibas.com

Two key factors will make 2017 a very different year for investors. Firstly, the election of Donald Trump as president of the US has the potential to dramatically change the direction of US inflation, interest rates, equity markets and GDP growth. Secondly, some central banks may begin to soften their quantitative easing (QE) policies, meaning that the long downward march in core government bond yields could finally be ending.

Exhibit 1: Bond yields have trended lower
(Average year-end yields for developed market government bonds, in %)



Data as at 11 November 2016. Note: chart shows the average of the yield-to-worst for the Barclays Global Aggregate index in the last two weeks of December in each year, or the two most recent weeks for 2016. Source: Barclays, BNP Paribas Investment Partners

Global developed market economic growth should improve in 2017, leading to falling output gaps and higher inflation, particularly in the US. If crude oil prices remain in a range of USD 40-50 per barrel, the impact on headline inflation, both positive and negative, should wane. The ECB and the Bank of Japan will likely continue to provide monetary stimulus, but structural constraints and market expectations of an eventual tapering may hinder them from pushing government bond yields meaningfully lower. The US Federal Reserve, on the other hand, will most likely be raising rates, so monetary policy overall can be expected to have a neutral to negative impact on global government bond prices.

> Monetary policy is likely to have a neutral to negative impact on global government bond prices

LOOKING AT THE BROAD ASSET CLASSES, THESE ARE OUR EXPECTATIONS:

- equities should outperform fixed income
- corporate credit should outperform sovereign bonds
- inflation-linked debt should outperform nominal government bonds
- developed market debt should outperform emerging market debt
- particularly in the US, small and mid-cap stocks should outperform large caps and cyclical and value stocks should outperform bond proxies (equity sectors such as real estate, telecommunication services, consumer staples and utilities).

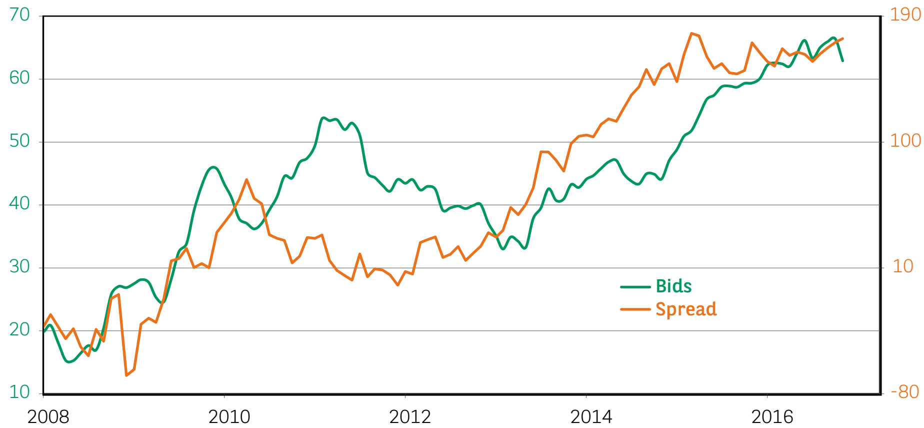
DEVELOPED MARKET FIXED INCOME

The size, scope and funding of a US stimulus package under the new administration is still unclear at the time of writing and will be determined by negotiations between President-elect Trump and the Congress in 2017. But even before the 8 November election, US Treasury yields had been expected to rise in 2017 thanks to increases in the federal funds target rate and rising inflation. The potential for higher inflation expectations is significant, in our view, as both core personal consumption expenditure (PCE) inflation and the core consumer price index (CPI) have risen since 2015, while current inflation expectations are still below the average of 2014.

For core eurozone government bonds, we expect the balance to tip towards higher rates

Any increase in Treasury yields should to an extent be moderated by foreign demand given the significant difference in spreads between US Treasuries and core European and Japanese bonds (see Exhibit 2). At the same time, rising US rates typically pull European and Japanese interest rates upward. We expect the Fed to raise rates at least twice over the course of the year, depending on the extent to which the expected stimulus package pushes up inflation.

Exhibit 2: Foreigners like US Treasuries
(Foreign bids accepted at US 10-year Treasury auctions (%), US-Germany 10-year government bond spread, in bp)

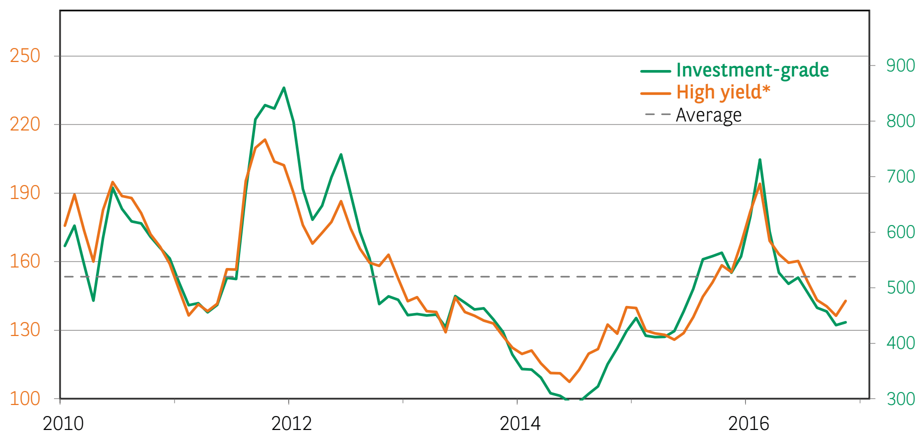


Data as at 11 November 2016. Note: bids show percentage of indirect bidder amount accepted at auction. Source: US Treasury, Bloomberg, BNP Paribas Investment Partners

As US interest rates rise in 2017, agency mortgage-backed securities (MBS) could be one area of potential outperformance. Historically, when rates are rising slowly, MBS have tended to outperform Treasuries given their typically shorter duration and higher yield. Security selection would offer opportunities to boost returns further.

The outlook for core eurozone government bond yields depends on the balance of power between rising US rates, modestly rising eurozone inflation, investor concerns about the sustainability and impact of quantitative easing, and European political risk. We expect the balance to tip towards higher rather than lower yields. 'Peripheral' market government bond spreads will likely reflect the waxing and waning of populist sentiment in each eurozone country; while we believe the political and financial risks in Italy, Spain and Portugal are meaningful, bond purchases under the ECB's quantitative easing programme should constrain any significant sell-offs, meaning that investors should look to buy on the dips.

Exhibit 3: US corporate credit spreads have tightened
(In bp)



Data as at 11 November 2016. *Excludes energy sector. Note: average applies to both investment-grade and high-yield separately. Chart is scaled such that the average for each is appropriate depending on the axis (left or right). Source: Barclays, BNP Paribas Investment Partners

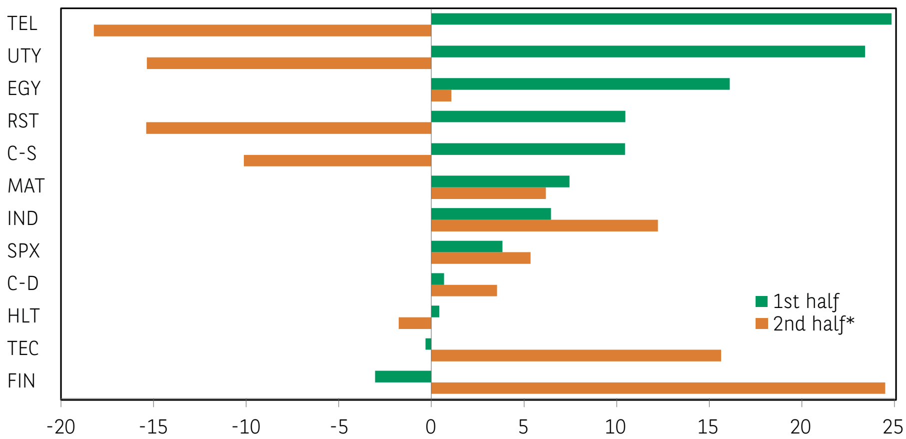
During the period since last June's Brexit vote, credit conditions have deteriorated in the US but corporate credit spreads (for both investment-grade and high-yield) have tightened and are now below average (see Exhibit 3). Given the volatility that markets have seen over the last several years, and taking into consideration the potential for future shocks, investors may wish to wait for a better entry point to add to positions.

Eurozone credit should benefit from ongoing ECB support. As outlined above we currently expect an extension of the current quantitative easing programme rather than a change in its composition. With the pace of both economic growth and inflation moderate in Europe, and with only average spread levels, investors will likely find better returns by moving further down the credit spectrum in investment-grade debt and into the higher-quality end of the high-yield market.

DEVELOPED MARKET EQUITIES

The returns for US S&P 500 stocks in the first and second half of 2016 were similar, at 4%-5% in both periods, but the contribution by sector was completely different. In the first half, investors seeking income in the face of declining bond yields drove sector returns, driving up the price of the well-known bond proxies. As expectations rose that the Fed would begin raising US policy rates, the spotlight swung to financials (see Exhibit 4).

Exhibit 4: Big rotation in equity sectors in the second half of 2016
(S&P 500 semi-annualised sector total returns, in %)



Data as at 11 November 2016. *To date. Note: TEL = telecommunication services, UTY = utilities, EGY = energy, RST = real estate, C-S = consumer staples, MAT = materials, IND = industrials, C-D = consumer discretionary, HLT = healthcare, TEC = information technology, FIN = financials. Source: Standard & Poor's, BNP Paribas Investment Partners

In the immediate aftermath of the US election, this trend only accelerated, with bond proxies continuing to lag and cyclical and value sectors rebounding. Given rising interest rates, the high valuations of bond proxies have become more of a worry to investors, although these sectors should eventually stabilise as dividends will still be attractive compared to what remain historically low bond yields.

Based on forward earnings estimates, the S&P 500 is trading at around 15% above the median value since 1984, but much of this is concentrated in the bond proxy sectors. Taken together, the real estate, utilities, food, beverage and tobacco, and household and personal products sectors are trading at 20% above their average long-run multiples, while the rest of the market (excluding energy) is just 5% above average. Although any correction in the valuations of the bond-proxy sectors would restrain broader market returns, this could be more than offset by an equivalent bounce in the valuations of out-of-favour, lower ROE stocks. Volatility spikes due to monetary policy or political surprises will, as always, likely open up opportunities for active investors.

The performance of European equities relative to that of US equities had improved thanks primarily to the change in interest-rate expectations after the Brexit vote. While the ECB is now expected to pursue its quantitative easing programme throughout most of 2017, the Fed looks set to take its next step towards policy normalisation. In addition to monetary policy favouring European equities, the potential for earnings growth looks better in Europe

> US corporate margins have been declining, while European margins are expected to improve

A rising dollar is a worry for emerging market debt

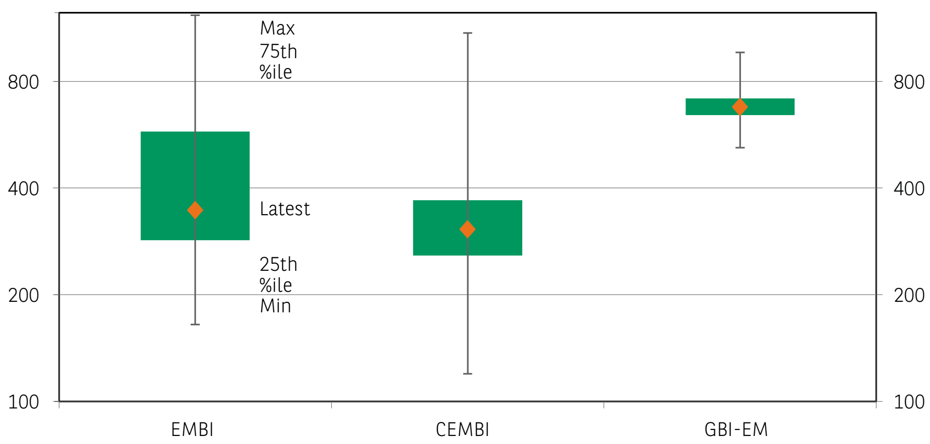
over the medium term. US corporate margins are still nearly 100bp above average, but have been declining in the face of rising wages and financing costs. In Europe, by contrast, margins are at average levels and earnings growth expectations are now significantly higher for 2017. In the short term, however, US equities could benefit from rising inflation, a government stimulus package, lower taxes and reduced regulation. In Europe, investors will be focusing on political risk with elections ahead in several major countries. While the fundamentals favour European equities outpacing the US, the eurozone recovery may yet again be delayed.

EMERGING MARKET FIXED INCOME

The siren call of emerging market debt yields has fallen silent as the prospect of higher interest rates in the US makes the extra yield in emerging market debt less attractive relative to the risk. Hard currency bonds had done well in 2016 as emerging markets benefited from the rally in commodity prices and countries narrowed their current account deficits thanks to weaker currencies, but now with rising US rates, the outlook is less promising. A stronger US dollar will likely eat into the returns of local-currency emerging market debt.

With spreads currently below average for the Emerging Markets Bond index (EMBI) and US bond yields rising, emerging market sovereign debt is unlikely to do as well in 2017. Investors may see better gains in corporate debt. Although defaults have risen and the amount of US dollar debt issuance is a worry, the eventual stabilisation in currencies and commodity prices suggests that spreads are more likely to narrow than widen (see Exhibit 5).

Exhibit 5: Emerging market bond index spreads and yields
(In bp)



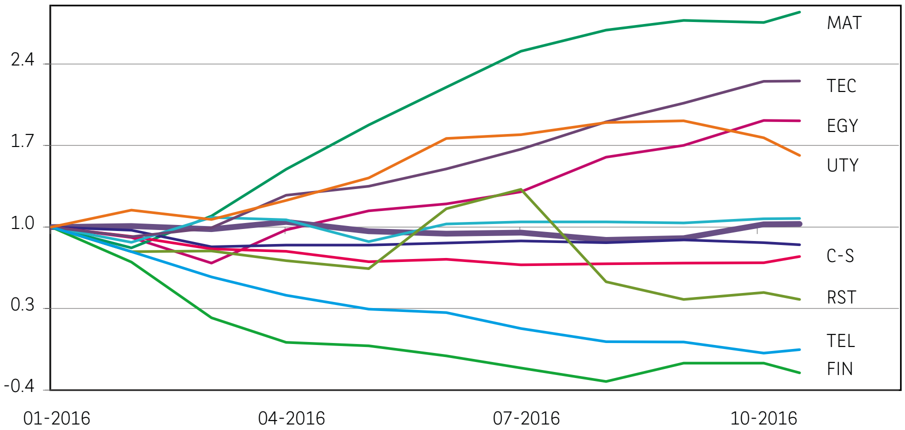
Data as at 11 November 2016. Green box: range in bond spreads versus US Treasuries since 1998 for EMBI (Emerging Markets Bond index), since 2002 for CEMBI (Corporate Emerging Markets Bond index) and range in yields since 2003 for GBI-EM (Government Bond index-Emerging Markets). Source: JPMorgan, BNP Paribas Investment Partners

In our view, local currency sovereign bond yield are attractive relative to core developed market debt, but a rising dollar means some central banks may need to raise policy rates to defend their own currencies. Ultimately, there is still the potential for emerging market currency appreciation given how far many emerging market currencies have depreciated since 2013, but investors may wish to wait before choosing their entry point.

EMERGING MARKET EQUITIES

Although the rebound in oil prices contributed significantly to the performance of emerging market equities in 2016, particularly in Latin America, information technology was actually the main source of gains in the MSCI Emerging Markets index, followed by financials. The US election result, however, presages trade concerns and a stronger dollar, which may offset stock market gains. The question is whether any price appreciation will be enough to leave investors with positive relative returns at the end of the year. We believe it will be. If the market's current worries about restrained trade prove to be unfounded, emerging markets could rebound sharply. And while the discount in valuations relative to developed markets has decreased, emerging markets are now still more attractively valued than developed markets. Margins are well below average for emerging market companies, in contrast to high margins in the US and, at best, average margins in Europe. We would note, however, that any margin expansion is evident in only two non-commodity sectors: information technology and utilities (see Exhibit 6). It will need to expand beyond these sectors for the market as a whole to sustain its appreciation, but barring a more sustained rise in the US dollar, emerging market equities should be able to outperform by the end of the year.

Exhibit 6: Lopsided margin expectations
(Indexed)



Data as at 11 November 2016. Note: MAT = materials, TEC = information technology, UTY = utilities, EGY = energy, C-S = consumer staples, RST = real estate, TEL = telecommunication services, FIN = financials. Not labelled: industrials, consumer discretionary, healthcare. Source: FactSet, BNP Paribas Investment Partners

CONCLUSION

The election of Donald Trump has dramatically changed the investment outlook for 2017, with risks as large as the opportunities. On the positive side, the Republican dominance of all branches of government gives the party a unique opportunity to implement what are generally considered pro-business policies: household and corporate tax reduction/reform, decreases in regulation, etc. At the same time, too much stimulus could lead the Fed to raise interest rates by more than markets currently anticipate or anti-trade proposals aired during the campaign could turn into reality.

Equities should outpace fixed income in 2017, marked by a rotation away from bond proxies in the equity market and away from core government bonds in fixed income. Inflation-linked bonds should do well relative to government bonds as inflation rises, although more so in the US and the UK than in the eurozone. Investment-grade and high-yield credit looks more attractive, particularly in Europe, as the US is further along in the credit cycle and spreads are low. The appeal of emerging market equities remains as more countries pursue reforms and corporate margins recover but the dollar and anti-trade worries are likely to weigh on returns in the short term. The outlook for emerging market debt is likely to get worse before it gets better, given rising US yields.

Corporate fundamentals have, for several years, taken a back seat to central bank policy in determining asset class returns. The balance may now be redressing itself as the yields of core government bonds rise. We do not expect 2017 to be the year when the expansive policies that the major central banks have pursued over the last eight years unwind. It may even take a decade before central banks move from tapering quantitative easing to asset selling. But counting on ever-falling bond yields will, in our view, no longer work.

> The election of Donald Trump dramatically changes the investment outlook, with risks as large as the opportunities

For more on our investment solutions and insights from BNP Paribas Investment Partners, go to bnpparibas-ip.com or visit our blog at investors-corner.bnpparibas-ip.com

Raul Leote de Carvalho
Deputy Head Financial Engineering
Paris
raul.leotedecarvalho@bnpparibas.com

FACTOR INVESTING: BOOSTING RETURNS FROM EQUITY AND CREDIT MARKETS

In our view, only diversification into uncorrelated sources of return can help investors when traditional asset classes can only deliver low returns. Factor investing does exactly that: creating portfolios based on factors that can be expected to generate positive returns uncorrelated with the returns of the traditional asset classes.

> Cheap, low risk, profitable companies with the strongest past returns should offer the highest potential future returns

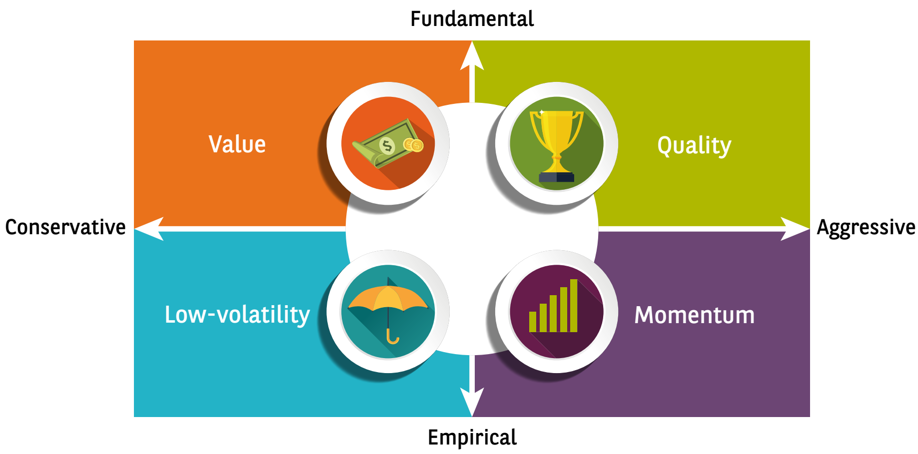
A factor can be simply thought of as any characteristic that is important in explaining the return and risk of a group of securities. To create exposure to such factors, we tilt portfolios in favour of stocks or corporate bonds whose risk and return characteristics are influenced by factors such as value, low risk, momentum and quality. Stocks and corporate bonds that we would seek to overweight are the cheapest, the least risky and the most profitable ones and those with the strongest past returns.

THE ORIGINS

Back in 2011 BNP Paribas Investment Partners was among the first to foresee a 'factor revolution' when we highlighted the fact that most of the fashionable quantitative strategies at that time were simply factor-driven exposures. Indeed, in our research papers[1] we pointed out that equity smart-beta strategies such as minimum variance, maximum diversification, risk parity or fundamental indexation were simply driven by exposures to factors such as low risk, value or small capitalisation. However, we also found that those same strategies were deriving their excess returns from factor exposures more by accident than intention.

Factor investing is not entirely new. We can see it as a natural extension of traditional quantitative investing, at least for equities. Quantitative equity managers, BNP Paribas Investment Partners included, have built portfolios exposed to factors since at least the early 1990s. But the new generation of factor investing innovates by introducing greater transparency and robustness. New generation strategies target risk exposures to well-identified factors for which there is the strongest academic evidence that they have generated uncorrelated positive excess returns.

Exhibit 1: Sources of alternative risk premiums for equities and credit



Source: BNP Paribas Investment Partners, October 2016

1 R. Leote de Carvalho, X. Lu, P. Moulin, Demystifying Equity Risk-Based Strategies: an Alpha plus Beta description, The Journal of Portfolio Management, 2012

2 R. Leote de Carvalho, M. Zakaria, X. Lu, P. Moulin, Low risk anomaly everywhere: evidence from equity sectors, in "Risk Based and Factor Investing", ISTE and Elsevier, 2015

Low-risk stocks are one example of stocks with such a well-defined factor premium. Our proprietary research[2] shows that these are best selected using historical volatility measures. It also found that sector diversification is crucial in capturing low-risk factor premiums, which are independent of changes in interest rates. Many traditional low-volatility strategies are not sector-diversified: they tend overweight non-cyclical sectors. As a result, they perform poorly when interest rates rise.[3]

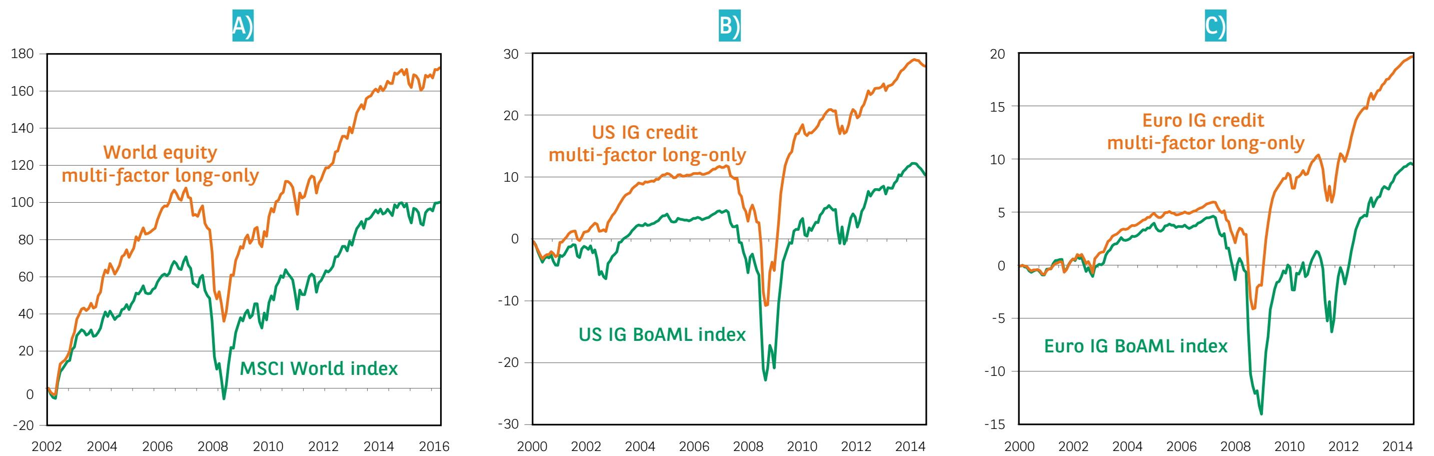
Value stocks are another example. Academic research shows that value stocks can generate returns higher than should be expected from their level of risk.[4] The same phenomenon is also apparent for quality stocks, i.e. stocks in profitable companies in a position of competitive advantage and with strong management teams in place.[5] Finally, shares in companies with the strongest past returns have been shown to generate higher future returns than those with a poorer past performance, and without being riskier.[6]

WHAT IS NEW?

Our recent research shows that long-only portfolios can capture factor premiums quite efficiently. Indeed, we have found that the excess returns generated from selling or underweighting expensive, high-risk and unprofitable stocks or those with the weakest past returns were strongly correlated with overweighting cheap, low-risk, profitable stocks or those with the strongest past returns, respectively. From a portfolio construction point of view there is thus little to gain from putting effort in trying to create positions in the portfolio to capture factor premiums from underweighting or selling short expensive, high-risk and unprofitable stocks or those with the weakest past returns.[7]

Our most innovative research concerns fixed-income investments and the low-risk premium that can be found across the asset class. Indeed, whether it is government bonds, investment-grade credit, high-yield credit or even emerging market debt, we have found strong evidence that low-risk bonds can generate a positive premium not explained by their level of risk.[8] More recently, we have shown that there are factor premiums to be harvested through multi-factor investing in investment-grade and high-yield credit from the value, low risk, quality and momentum factors using low-turnover strategies (see Exhibit 2).

Exhibit 2: Performance of multi-factor long-only strategies compared to A) global developed equities, B) USD investment-grade credit and C) euro investment-grade credit
(Cumulated returns including realistic transaction costs in %)



Note: A) based on the MSCI World index (in USD), B) Bank of America Merrill Lynch universe (in USD), C) Bank of America Merrill Lynch universe (in EUR). Latest data available. Source: BNP Paribas Investment Partners, MSCI, Bank of America Merrill Lynch, Exshare, October 2016

3 R. Leote de Carvalho, Low-risk equity strategies without interest rate sensitivity investors-corner.bnpparibas-ip.com/thought-leadership/low-risk-equity-strategies-without-interest-rate-sensitivity
4 E. Vincent, Value, the obvious factor, investors-corner.bnpparibas-ip.com/investment-themes/value-the-obvious-factor
5 E. Vincent, Quality, the positive factor, investors-corner.bnpparibas-ip.com/investment-themes/quality-the-positive-factor
6 E. Vincent, Momentum, the unloved factor, investors-corner.bnpparibas-ip.com/investment-themes/momentum-the-unloved-factor
7 R. Leote de Carvalho, X. Lu, P. Moulin, An integrated risk-budgeting approach for multi-strategy equity portfolios, Journal of Asset Management, 2014
8 R. Leote de Carvalho, P. Dugnolle, X. Lu, P. Moulin, Low risk anomalies in global fixed income: Evidence from major broad markets, The Journal of Fixed Income, 2014

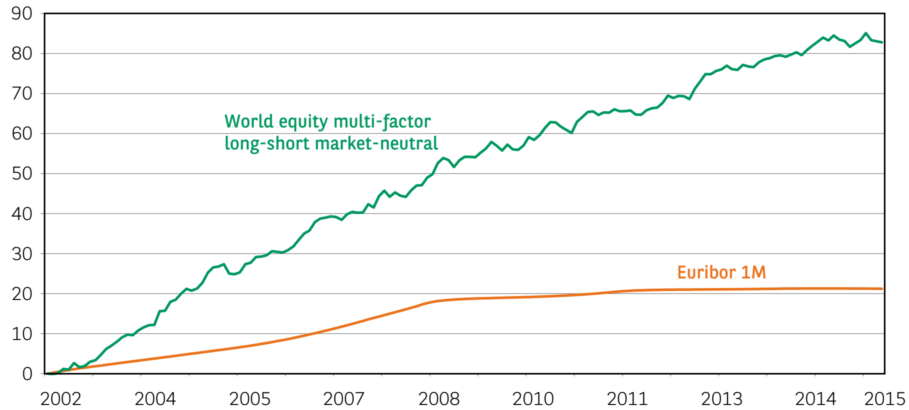
Given that interest rates remain extremely low, investors seeking higher returns may want to switch into long-short multi-factor strategies with moderate volatility

INVESTING IN FACTORS IN 2017

Value, low-risk, quality and momentum factors can generate premiums over the long term both in the equity and the credit markets through multi-factor as well as single-factor strategies. We believe investing in a multi-factor strategy is superior to investing in a collection of single-factor strategies because this allows for better control of the risk allocation to each factor and better management of the guideline constraints. Since combining multiple factors in a portfolio results in a number of active weights netting with each other, running a multi-factor portfolio requires lower portfolio turnover in aggregate and is thus more efficient. However, single-factor strategies can be important for investors that already have factor exposures in their portfolios.

Given that interest rates are likely to remain extremely low for the foreseeable future, investors seeking higher returns could also switch their cash allocation to long-short multi-factor strategies with moderate level volatility. Investors doing so should pay attention to the risk management process in such strategies, making sure that they are indeed market-neutral, i.e. that the beta of their portfolio is indeed zero (see Exhibit 3 for an example).

Exhibit 3: Simulated returns for multi-factor market-neutral long-short strategy compared to Euribor 1M
(Cumulative returns, including realistic transaction costs in %; returns are in EUR)



Source: BNP Paribas Investment Partners, November 2016

Replacing allocations to individual asset classes with multi-factor exposures has been shown to yield additional returns. Take for example a portfolio with an allocation of 50% to world developed equities, 15% to EUR investment-grade bonds, 5% to USD investment-grade bonds, 20% to EUR Treasuries and 10% to one-month Euribor cash. If we had replaced the allocations to equity, credit and cash with allocations to the four multi-factor strategies mentioned, the new multi-asset portfolio would have generated an additional annual excess return of 3.6%[9] from the exposures to the value, quality, momentum and low-risk factors. This clearly illustrates the potential of multi-factor investing.

9 Period covered: 2002 to 2014; source: BNP Paribas Investment Partners

ALTERNATIVE DEBT: SME DEBT DISINTERMEDIATION TO PROGRESS IN 2017

Stéphane Blanchoz
CIO for Alternative Debt Management
Paris
stéphane.blanchoz@bnpparibas.com

'Liquidity' and 'market risk' appear to have become second-rate considerations in a world where cash-rich investors outnumber the investment possibilities, particularly in corporate debt markets. 'Liquidity' has been evaporating as many banks retreat from market-making; 'market risk' has become less of a concern than 'credit risk'. While such developments can be disconcerting, they are also giving rise to new opportunities: private debt investments and other direct lending strategies are increasingly attracting investors, in particular institutional investors. Initially focused on larger companies, SMEs (small and medium-sized enterprises) are now joining the bandwagon.

We believe allocations to private debt investments and other direct lending strategies can be attractive for investors in 2017 as the segment grows. The drivers of growth are bank disintermediation and regulatory support from policymakers in combination with an intensifying search for yield and diversification as investors adapt to the idea that the low interest-rate environment is here to stay for the foreseeable future.

In the aftermath of the 2008 crisis, the financial industry faced the need for significant reforms. The resulting reforms paved the way for the disintermediation of banks because regulators were keen to reduce the overall size of banks' balance sheets. In Europe in particular, the heavy reliance of companies on bank credit was addressed. Various initiatives favoured the financing of corporates by institutions other than banks. At the same time, institutional investors were offered more leeway to diversify their investments away from their traditionally bond-heavy exposures.

The initiatives included opening up bond markets to medium-sized companies with an unrated or non-investment grade risk profile. In Italy, fiscal incentives for bond issuance were introduced. The launch of dedicated Euro Private Placements (Euro PP) funds in France focused on mid-sized companies willing to diversify their sources of funding or take a first step towards the eventual issuance of public debt. While these initiatives initially targeted companies not large enough to tap the public fixed-income capital markets, the bulk of issuers since the inception of this market in 2012 have in fact been companies with turnover of more than EUR 300 million.

EXPANDING THE OFFERING IN THE CREDIT SEGMENT

For an investor considering corporate bonds, the offering is actually fairly limited at this juncture. When looking at European corporate benchmarks for investment-grade, high-yield bonds and leveraged loans, non-financial issuers do not even total 1 000. To put this into perspective, according to Eurostat, the EU28's economy consisted in 2012 of around 25.6 million active enterprises. Even if the overwhelming majority of companies active in the non-financial sector are micro-enterprises, the number of companies which could potentially seek non-bank financing remains significant, in particular when it comes to SMEs.

Indeed, the SME segment has so far participated only marginally in the disintermediation trend and is still quasi-exclusively being funded through the banking system. For private investors, financing smaller companies is particularly challenging since this requires time-consuming analysis which might not be economically practicable when investing in smaller loans.

However, there are alternatives, both for investors looking for diversification through an exposure to SME loans and for SMEs looking to diversify their sources of funding. The development of crowdfunding platforms gives SMEs the chance to obtain non-bank financing, while peer-to-peer lending has recently started to attract institutional interest.

> **Direct lending strategies can be attractive for investors as the segment grows, driven by bank disintermediation, regulatory support as well as an intensifying search for yield and diversification**

Marketplace lending securitisation, backed by collateral made up of a pool of loans to SMEs, has started to evolve, benefiting from the clear support of European policymakers.

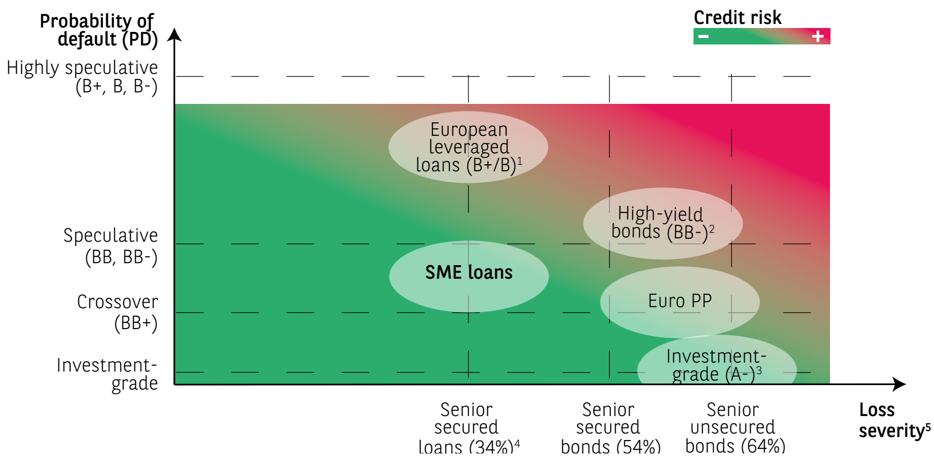
Another relatively recent development, which we see as definitely positive for SME credit, is the creation of the European Long-Term Investment Fund (ELTIF) label. Although not specifically directed at SMEs, ELTIFs are well suited to investments in long-term and illiquid assets. Moreover, these funds can grant loans directly to companies, expanding the range of SME direct-lending initiatives. The shift from a concentrated portfolio of sizeable SME loans to a diversified ELTIF of smaller SME loans could well pick up pace in the coming years. However, this will require proximity to origination sources, the development of scoring methodologies and the ability to industrialise credit work through a highly-structured investment process.

SME DEBT OFFERS DIVERSIFICATION BENEFITS AND SOLID CREDIT FEATURES

The direct lending market has become both an additional funding solution for SMEs and an asset class bringing diversification to investors. According to a recent Deloitte report, the amount of direct lending fundraising over the 2013-2016 period reached USD 104.3 billion. And just within Europe, the capital raised by direct lending funds reached USD 45.2 billion over the same period.[10] In addition to diversification benefits, the characteristics of SME debt typically include a low default risk and a high recovery rate in the case of default. In terms of a company's debt structure, SME debt is usually ranked as senior and the credit protection level is typically 'secured'. The equivalent credit rating of SME debt, much of which is currently unrated, would be a solid BB (see Exhibit 1).

We believe there is ample scope for the SME credit segment as SMEs tap into different — and often flexible — types of non-bank financing. Investors stand to benefit from the trade-off between liquidity and returns by beng able to invest in an additional segment of the European credit markets with an attractive risk-adjusted return profile.

Exhibit 1: European SME debt: an attractive credit risk profile



1 Source: S&P LCD, European LBO Loan index (ELLI), WA Rating, as at November 2015
2 Source: Merrill/Bloomberg European High Yield Bond index (HE00) - Average Composite Rating, January 2016
3 Source: Merrill/Bloomberg European Investment Grade Bond index (ER00) - Average Composite Rating, January 2016
4 First Lien
5 Source: Moody's European Corporate Default and Recovery Rates, 1985 – H1 2015

For more on our investment solutions and insights from BNP Paribas Investment Partners, go to bnpparibas-ip.com or visit our blog at investors-corner.bnpparibas-ip.com

10 Source: Entering new waters: expanding beyond the mid-market, Deloitte Alternative Lender Deal Tracker Q2 2016

ESG INVESTING: MAKING PORTFOLIOS FUTURE-PROOF

Jacky Prudhomme
Head of ESG integration
Paris
jacky.prudhomme@bnpparibas.com

Gaëtan Obert
Head of Sustainable Thematic Equity & ESG coordinator
Paris
gaetan.obert@bnpparibas.com

The range of issues associated with environmental, social and governance (ESG) criteria has gained greater prominence in the investment decisions of investors. More and more stakeholders including pension funds, asset managers, governments and individuals, have found that applying ESG criteria is entirely consistent with their fiduciary and financial objectives. To illustrate the point, between 2007 and 2012 — even in the face of one of the most severe financial crises the world has ever seen — ESG-driven investment strategies boomed, with their value rising more than six-fold from around USD 5 trillion to USD 32 trillion.

We provide a tour-de-horizon in this article, concluding that ESG considerations should be integral to designing and implementing resilient, future-proof portfolios both on a medium and long-term investment horizon.

MAKING SENSE OF ESG INVESTMENTS

Contrary to the traditional best-in-class approach of socially responsible investment (SRI), an ESG approach does not seek to systematically exclude a defined percentage of companies from an investment universe. It finds its basis in investigating ESG practices and points of contention and incorporating the results into a broader range of criteria. It thus gives investors more tools when they assess the level of risk they want to take. Having an in-depth knowledge of the ESG dimensions of a company can improve the comprehension of that company's strengths and weaknesses.

ESG is also about protecting investors from reputational and operational risk. Applying minimum ESG requirements is about ensuring, first of all, that you are not exposed to companies that are more likely to be involved in significant ESG-related issues such as human rights abuses or causing significant environmental damage. Besides the reputational element, such issues could have a major adverse effect on financial performance.

ESG considerations can be integrated in two stages; first, by applying the 10 principles of the United Nations Global Compact and next by implementing sector policies that relate to companies in sensitive areas such as mining, palm oil, coal-fired power plants, nuclear energy and paper pulp. The purpose is to identify companies with the worst practices, which are potentially the most exposed to stakeholder activism and litigation and penalties for their infringement of local regulations.

The approach can be plugged into the toolkit of investors including asset managers and help provide better forecasts of the risks and soundness of security issuers eligible for investment. We believe that the better you know and understand the company, state authority or supranational body, the better you can understand the strength and potential of the underlying business models. Researching issues associated with ESG can help to generate value for investors, particularly those pursuing longer-term objectives, by mitigating risk and focusing attention on better-quality, more resilient companies.

As opposed to restricting the available investment universe, ESG considerations can help to unlock upside potential and enlarge the scope of investments. For example, including ESG-friendly technologies such as renewable energy or energy efficiency can have significant potential and should be of considerable interest to investors.

> *"Recent studies have broadened the interpretation of fiduciary duty away from the narrow confines of past definitions, and have emphasised that there is no conflict between fiduciary duty and ESG considerations – there is a growing recognition that ESG issues are in fact financially material to a portfolio. Using the status quo as a reason for not integrating ESG is no longer acceptable."*
>
> **Fiona Reynolds**, managing director of the Principles for Responsible Investment (PRI)

Having an in-depth knowledge of the ESG dimensions of a company improves the comprehension of that company's strengths and weaknesses

Increasingly, an ESG approach is becoming a must-have for investors and for companies

IN A LOW-GROWTH, LOW-YIELD ENVIRONMENT, SHOULD ESG PRINCIPLES TAKE A BACK SEAT?

Five years ago, it would have been hard to convince investors that an ESG approach could have a materially positive impact on performance. But since the 2008 crisis, it has become clear that ESG-oriented practices can help to mitigate risk. SRI portfolios have done well since then, even in the face of unconventional monetary policy, government budget constraints and the increasingly eager pursuit of yield. Investors are recognising the value of integrating an ESG dimension and have become more comfortable with ESG. For many fund managers, it is now part of their investment strategy to look into ESG issues and to find room in their investment models for specific ESG criteria.

We expect the trend towards ESG integration to continue in 2017, both at the investor level — including investment managers and other asset owners — and at the issuer level where more forward-looking companies and other security issuers are making a virtue of exhibiting ESG-based values. Increasingly, an ESG approach is becoming a must-have for many businesses.

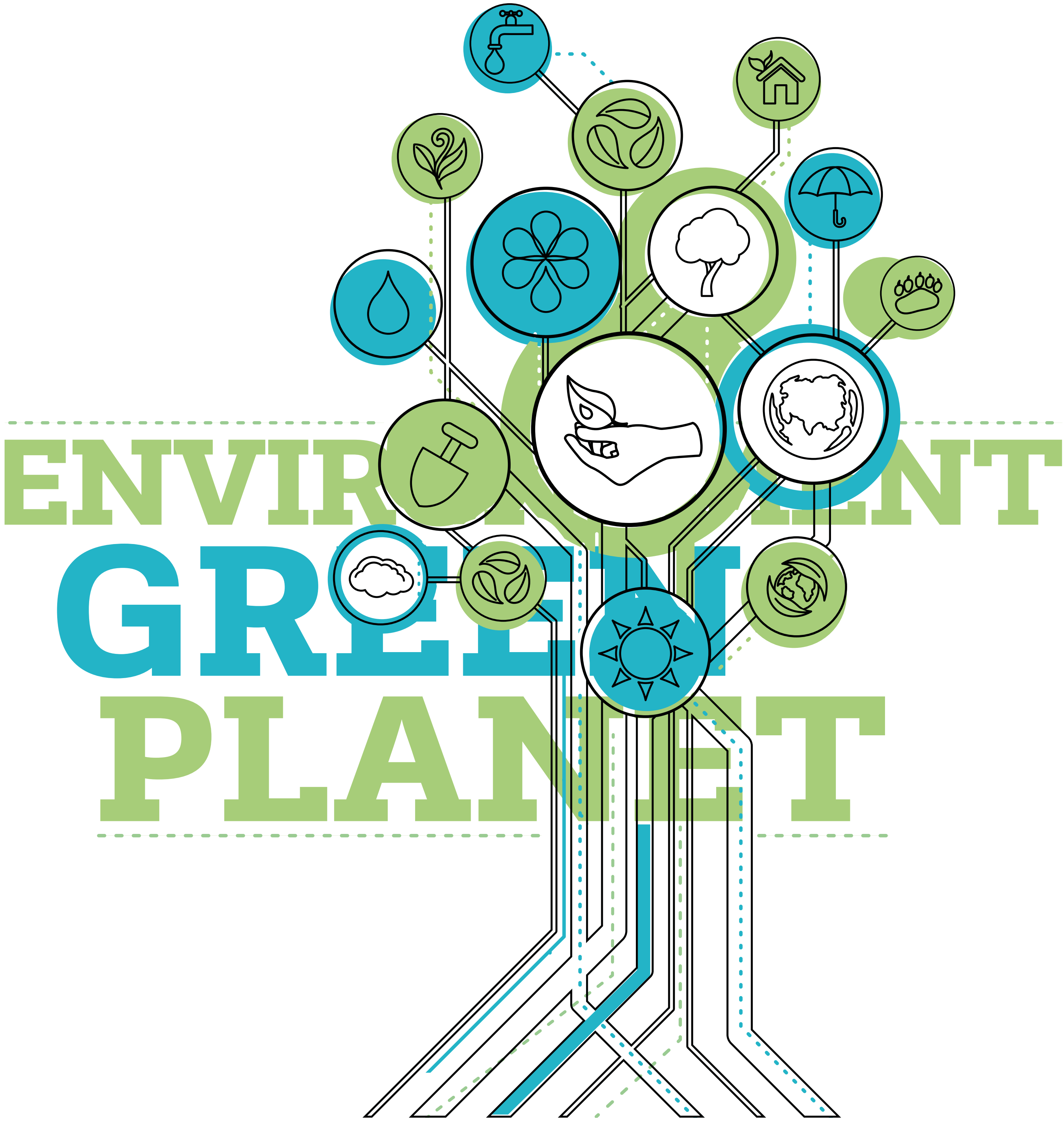
THE FUTURE OF ESG

Increased responsibility reflects the challenges faced by many modern societies, from climate change to a scarcity of resources, to malnutrition and obesity, access to (affordable) medicine and social tensions. At the regional level, Europe already has many stringent regulations in terms of environmental protection and social standards and companies domiciled there tend to have higher ESG scores. What this means is that if as an investor you want to incorporate limited ESG risk into your portfolio, you would likely favour European companies over Asian or North American companies. But that may change over the medium term. China has been changing its stance on environmental protection and is now addressing the health problems related to poor air and water quality. However, many developing economies are still lagging, not only on addressing environmental issues, but also labour practices and human rights.

At an asset class level, it is becoming increasingly important to have a clear understanding of the value chains of the companies we invest in and to assess the social standards applied by contractors and sub-contractors. ESG analysis is being widened to include the sphere of responsibility of the company and its ability to impose its best practices on others. The pressure is coming not just from investors who are engaging with companies and seeking greater disclosure, but also from regulators who are demanding companies investigate their value chains and social risk. One success story is the Bangladesh Accord on Fire and Building Safety, where asset owners and asset managers engaged with the textile sector to improve social standards and working conditions at local contractors.

The pressure for improvements in such areas should continue unabated. Stakeholder activism in ESG areas ranging from corporate governance to business ethics and business practices, addressing issues including anticompetitive practices, bribery, corruption and tax evasion, is unlikely to let up. For investors with a keen focus not just on the rewards from investments, but also on managing the risks, and with an eye for the long term, the role of ESG investing in making a portfolio future-proof is compelling.

For more on our investment solutions and insights from BNP Paribas Investment Partners, go to bnpparibas-ip.com or visit our blog at investors-corner.bnpparibas-ip.com


ENVIRONMENT
GREEN
PLANET

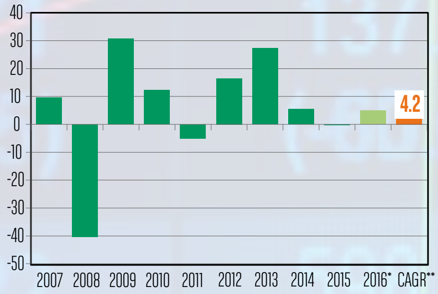
ASSET CLASS OVERVIEW

Looking at asset class returns over a 10-year period suits the viewpoint of investors with a longer-term investment horizon and can provide insights into asset class characteristics such as the volatility in returns over the years and the compound annual growth rate (CAGR) of returns over time.

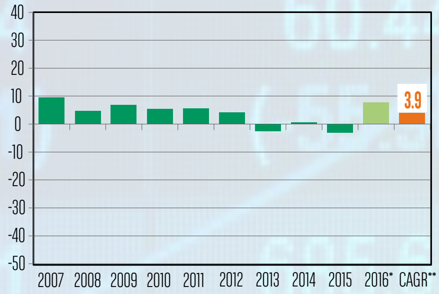
Comparing the CAGR and, for example, the year-to-date return can help put the performance of an asset class in 2016 into perspective.

Here we provide an overview of the performance of the main asset classes.

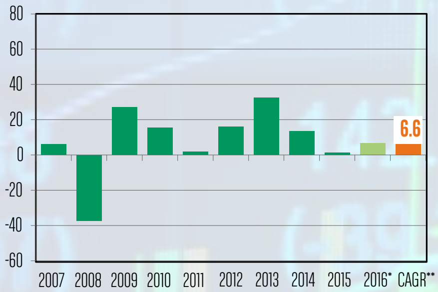
Global equities



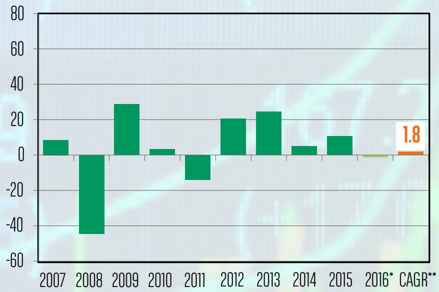
Global fixed income



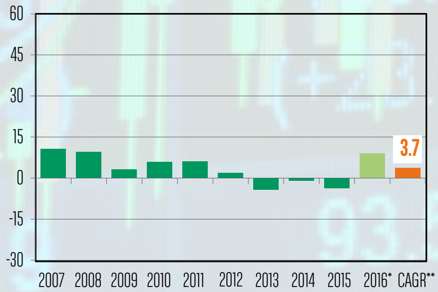
US equities



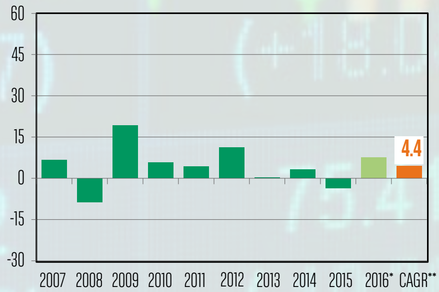
Eurozone equities



Global government bonds

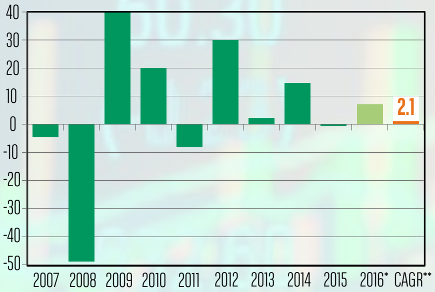


Global investment-grade bonds

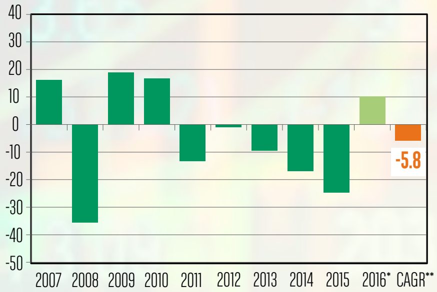


Notes: Total return in %, local currency; *year-to-date data up to September 2016; **CAGR = compound annual growth rate; indices used: global equities GDDUWI index; US equities GDDUUS index; eurozone equities GDDLEMU index; Japanese equities GDDLJN index; emerging market equities M2EF index; fixed income global aggregate LEGATRUU index; global government bonds LGAGTRUU index; investment-grade bonds LGCPTRUU index; high-yield bonds LG30TRUU index; emerging market bonds JGENVUUG index; global real estate TENHGU index; global commodities BCOMTR index; source: BNP Paribas Investment Partners, Bloomberg; October 2016

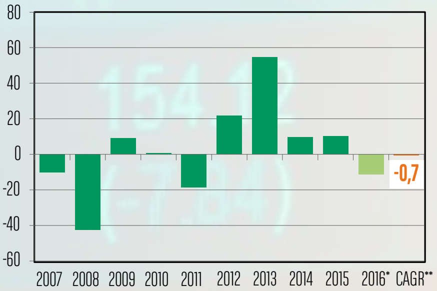
Global real estate



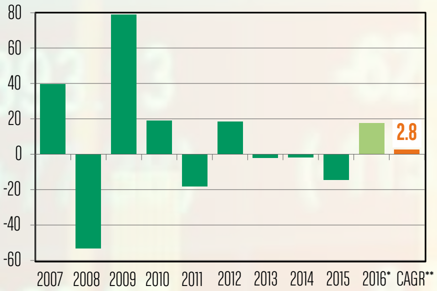
Global commodities



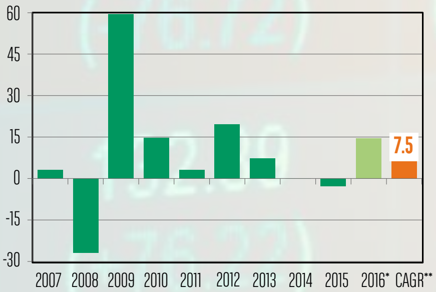
Japan equities



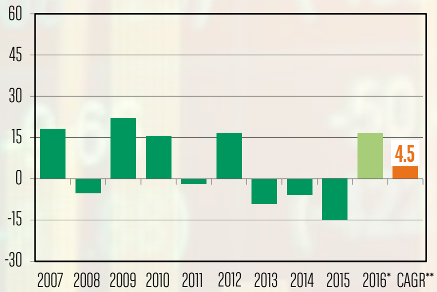
Emerging equities



Global high-yield bonds

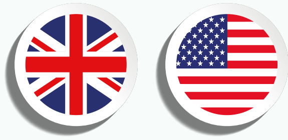


Emerging market debt (local currency)



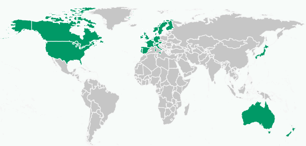
Equities

Inflation-linked bonds



Investment-grade and high-yield credit

Developed market debt



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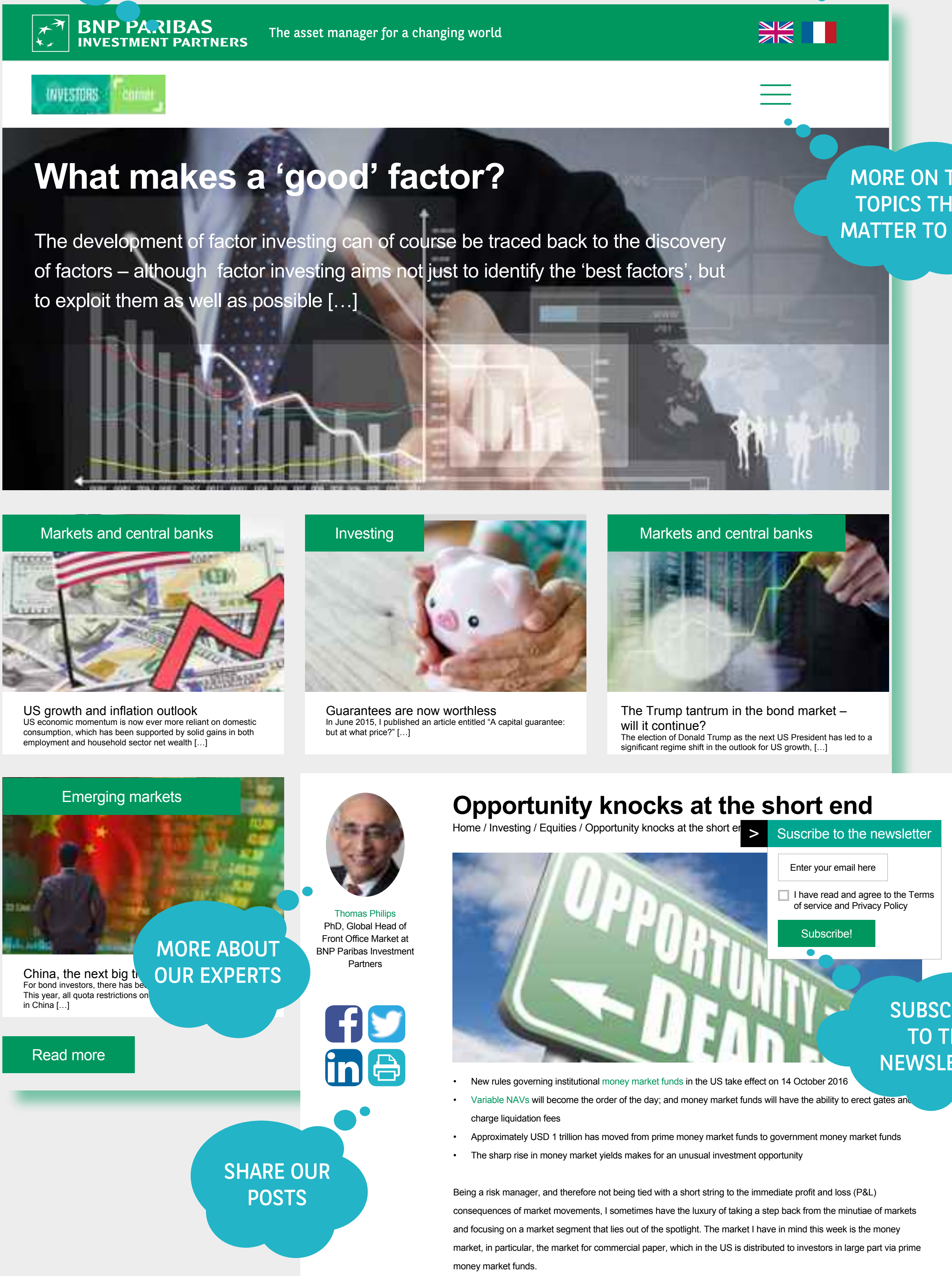

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Datastream and Bloomberg are the sources for all data in this document up to and including 14 November 2016, unless otherwise specified.

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